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ABSTRACT

The House of Representatives requested that the Health, Education, and Human Services Division (HEHS) examine privatization of child support enforcement programs in the United States. HEHS was to determine: (1) advantages and disadvantages of privatization, and the extent of these programs currently; (2) terms of contracts; (3) legalities of programs; and (4) relative cost effectiveness. In general, it was found that one or more child support enforcement services are privatized statewide in 20 states and at the local office level in 18 states. Twenty-one contracts for full-service child support operations were identified, as were 40 other contracts for collections and related location services; 4 major contractors provide most of these services. Finally, nine contracts were identified for payment processing services, and eight for location services only. This report presents statistical charts of the findings in two appendices. Appendix 1 contains a map showing "Statewide or Local Child Support Privatization Initiatives as of October 1995." Appendix 2 contains an eight-page table of "Contract Information on State and Local Child Support Privatization Initiatives Ongoing or Planned as of October 1995," by state. Information in the table includes type of privatized service, contractor, terms of contract, and types of cases administered. Appendix 3 includes a listing of 12 related General Accounting Office reports related to child support enforcement. (SD)

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GAO

United States General Accounting Office

Fact Sheet for the Chairman, Committee
on the Budget, House of Representatives

November 1995

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CHILD SUPPORT ENFORCEMENT

States and Localities Move to Privatized Services



PS 023940



United States
General Accounting Office
Washington, D.C. 20548

**Health, Education, and
Human Services Division**

B-270169

November 20, 1995

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

Facing budgetary and staffing constraints and increasing federal performance standards, state child support enforcement programs are struggling to serve their ever-increasing caseloads. As states confront the need to improve their services to the public, many are turning to the private sector to augment their child support enforcement programs. While states continue to expand these public and private partnerships, little is known nationally about such efforts. In May 1995, you asked us to develop information on these privatization initiatives. Specifically, you asked us to determine (1) the extent of, rationale for, and perceived advantages and disadvantages of privatizing child support functions; (2) the terms of these contracts; (3) the legal issues surrounding privatization; and (4) what is known about the cost effectiveness of these efforts.

In August 1995, we briefed your staff on the status of our ongoing work. Subsequently, in response to inquiries from officials of the Department of Health and Human Services (HHS) and several states about our inventory of state privatization efforts, you asked us for an interim report on that information. This fact sheet contains an inventory of ongoing and planned state contracts for location services, collections, payment processing, and full-service programs as of October 1995.¹

We gathered this information by visiting and interviewing child support officials and contractors in Georgia, Maryland, Mississippi, Tennessee, and Virginia. We also interviewed by telephone child support officials and contractors in the remaining states and gathered additional data through our analysis of child support contracts. Our inventory of child support contracts may not be complete, because where programs are state-supervised but locally administered, state officials said that they were not always fully aware of local privatization efforts.

¹We focused on these services because of recent increases in the number of contracts for such services and their direct relationship to the collection of child support. We did not include services traditionally contracted out such as genetic testing, legal services, and automated systems, nor did we include contracts solely for paternity acknowledgement or customer service.

In summary, we found that one or more child support services are privatized statewide in 20 states and at the local office level in 18 states (see app. I).² We identified 21 contracts for full-service child support operations, about half of which are served by one of two major contractors. We also identified 40 other contracts for collections and related location services; four major contractors provide most of these services. Finally, there are nine contracts for payment processing services and eight contracts for location services only. Appendix II contains detailed information about these contracts, including the contractor, contract terms, and the types of services provided. Appendix III contains a list of related GAO products on child support enforcement.

Agency Comments

We discussed this report with HHS' Office of Child Support Enforcement officials who generally agreed with the data presented. They provided technical comments on the data, which we have incorporated as appropriate.

We will send copies of this fact sheet to the Chairmen of the Senate Committee on Finance and the House Subcommittee on Human Resources, Committee on Ways and Means; the Secretary of HHS; and HHS' Assistant Secretary for Children and Families. We will also make copies available to others on request.

²Three new contracts are planned to be awarded in two states that have existing privatization contracts and at least five new contracts are planned to be awarded in four states that have no privatization contracts. Five of the current states with contracts have privatized services at both the statewide and local levels.

We will continue to keep you and your office informed of our progress in reviewing the costs and outcomes of state privatization initiatives. If you or your staff have any questions about this fact sheet, please contact David P. Bixler, Assistant Director, at (202) 512-7201 or Kevin M. Kumanga, Senior Evaluator, at (202) 512-4962. Other major contributors to this fact sheet include Gerard V. Grant, Christopher Morehouse, and Suzanne S. Sterling.

Sincerely yours,

A handwritten signature in cursive script that reads "Jane L. Ross". The signature is written in dark ink and is positioned above the printed name and title.

Jane L. Ross
Director, Income Security Issues

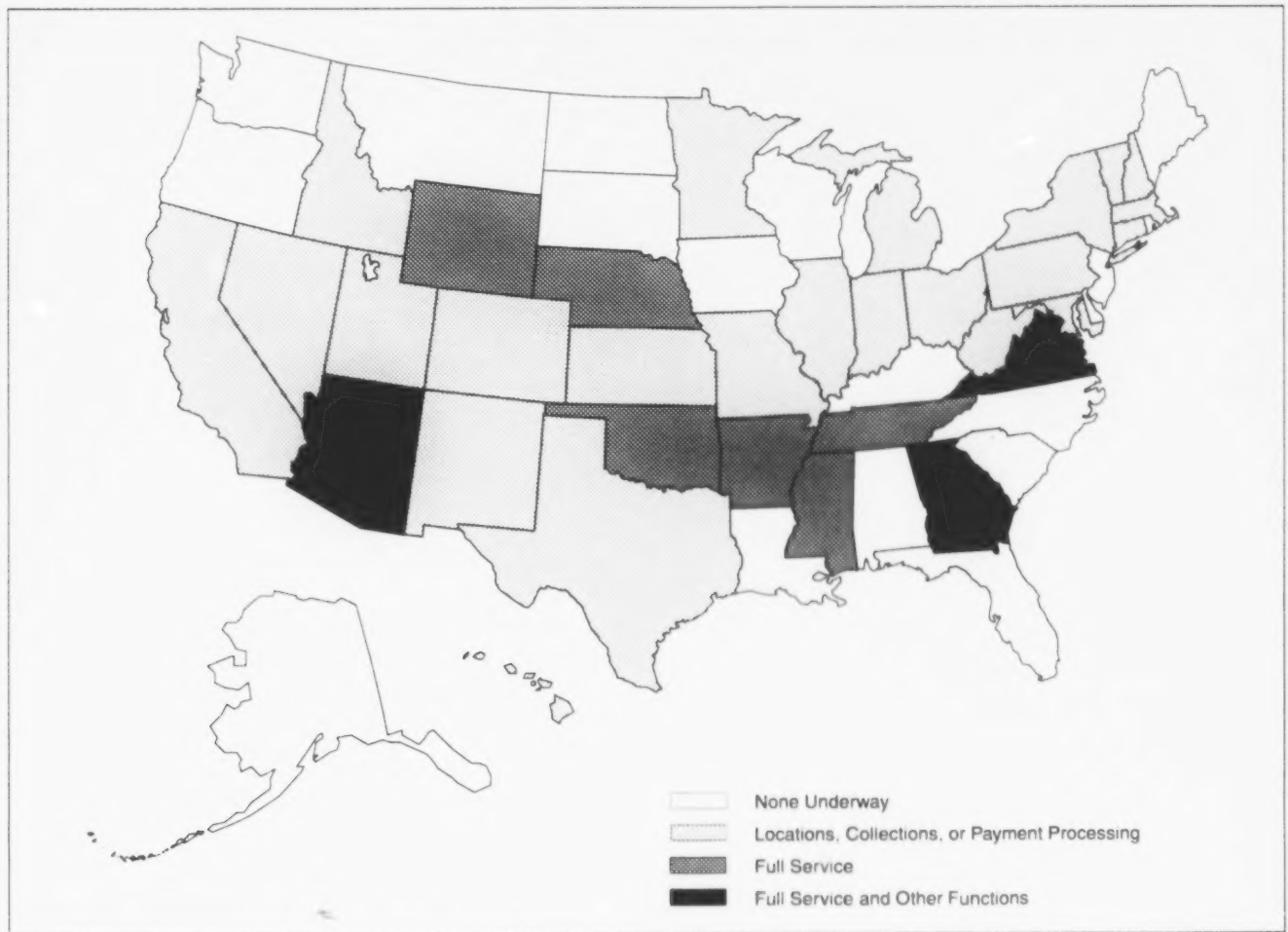
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Abbreviations

AFDC	Aid to Families With Dependent Children
HHS	Department of Health and Human Services

Statewide or Local Child Support Privatization Initiatives as of October 1995



Contract Information on State and Local Child Support Privatization Initiatives Ongoing or Planned as of October 1995

Privatized services				Contractor	Start date (contract length ^c)	Payment terms ^{d, e}	Type of cases served ^f
Full service ^a only	Locate Collections ^b	Payment processing					
Alabama							
17 of 67 counties		X		To be awarded	(2.5 years)		Aid to Families With Dependent Children (AFDC) arrears
Arizona							
Apache, Coconino, Graham, Greenlee, Maricopa, Mohave, and Yuma Counties		X		RSI Enterprises, Inc.	5/94 (4 years)	Variable rates each year based on performance	All
Apache, Coconino, Graham, Greenlee, Maricopa, Mohave, and Yuma Counties		X		Equifax Accounts Receivable Service	6/94 (4 years)	Variable rates each year based on performance	All
Santa Cruz and Yavapai Counties	X ^g			Policy Studies, Inc. (PSI)	3/94 (4 years)	32-24 percent ^h	All
Arkansas							
Jefferson County	X			Hunt Law Firm	9/95 (1.8 years)	Fixed fee of \$810,000, reimbursable expenses up to \$490,000 plus incentives	All
Greene County	X			Greene County Child Support Enforcement, Inc.	9/95 (1.8 years)	Fixed fee of \$175,000, reimbursable expenses up to \$290,000 plus incentives	All
Garland County	X			Owen Support Services, Inc.	7/95 (2 years)	Fixed fee of \$390,000, reimbursable expenses up to \$460,000 plus incentives	All
Craighead County	X			Brent Davis, Esq.	7/95 (2 years)	Negotiated contract	All
3rd Judicial District	X			Randolph Co., Judge/Multi Services, Inc.	7/95 (2 years)	Negotiated contract	All

(continued)

**Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995**

	Privatized services			Contractor	Start date (contract length)	Payment terms ^{d, e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
14th Judicial District	X			Multi Services, Inc.	7/95 (2 years)	Fixed fee of \$300,000 reimbursable expenses up to \$330,000	All
California							
Los Angeles County			X	Lockheed Martin IMS	7/95 (5 years)	Fixed fee of \$15.3 million plus incentives	All
Colorado							
Statewide			X	Lockheed Martin IMS	8/91 (5.5 years)	Fixed fee of \$8.75 million	All
El Paso County	X			Maximus	1/96 (5 years)	19-10 percent ^h	All
Mesa County		X		Lockheed Martin IMS	2/95 (11 months)	Negotiated contract	All
Mesa County		X		Technical Management Resources (TMR)	2/95 (11 months)	Negotiated contract	All
Rio Blanco County		X		Colorado Child Support Services, Inc. (CCSSI)	1/95 (1 year)	16 percent	AFDC arrears
Delta County		X		CCSSI	6/95 (7 months)	16 percent	AFDC arrears
Archuleta County		X		CCSSI	5/95 (7 months)	Negotiated contract	AFDC arrears and some current AFDC
Las Animas County		X		CCSSI	4/95 (8 months)	Negotiated contract	AFDC and non-AFDC arrears
Connecticut							
Statewide		X		Lockheed Martin IMS	10/95 (3 years)	23.75 percent ^h	Closed AFDC cases
Statewide			X	Shawmut Bank	6/95 (5 years)	Variable fee per service	All
Florida							
Statewide (2 contracts)		X		To be awarded	11/95 (1 year)		AFDC and non-AFDC arrears

(continued)

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Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995**

	Privatized services				Contractor	Start date (contract length ^c)	Payment terms ^{d, e}	Type of cases served ^f
	Full service ^a only	Locate only	Collections ^b	Payment processing				
Georgia								
Statewide			X		GC Services Limited Partnership (GC Services)	1995 (3 years)	7.89 percent	AFDC arrears
Statewide		X			Lockheed Martin IMS	3/94 (2.3 years)	\$46.50 per location	At staff discretion
Fulton County	X ^g				Child Support Services of Georgia (Policy Studies, Inc.)	7/94 (5 years)	11.5-10 percent ^h	All non-AFDC
Hawaii								
Statewide				X	Lockheed Martin IMS	10/95 (1 year)	Fixed fee plus volume adjustments	All
Idaho								
Statewide			X		Equifax Credit Information Services	11/93 (4 years)	21 percent	AFDC arrears on closed cases
Illinois								
Statewide			X		Lockheed Martin IMS	7/94 (2 years)	Negotiated contract	AFDC and non-AFDC arrears
Statewide			X		GC Services	7/94 (2 years)	Negotiated contract	AFDC and non-AFDC arrears
Statewide			X		Hanover Credit	7/94 (2 years)	Negotiated contract	AFDC and non-AFDC arrears
Statewide			X		Harvard Collection Services	7/94 (2 years)	Negotiated contract	AFDC and non-AFDC arrears
Statewide			X		Midwest Account Consultants	7/94 (2 years)	Negotiated contract	AFDC and non-AFDC arrears
Indiana								
Marion County		X			Trans Union	1993	Negotiated contract	At staff discretion
Marion County		X			TRW	1993	Negotiated contract	At staff discretion
Marion County		X			Associated	1993	Negotiated contract	At staff discretion

(continued)

Appendix II
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Child Support Privatization Initiatives
Ongoing or Planned as of October 1995

	Privatized services				Contractor	Start date (contract length ^c)	Payment terms ^{d,e}	Type of cases served ^f
	Full service ^a only	Locate only	Collections ^b	Payment processing				
Iowa								
To be determined (local office level)	X				To be awarded	11/95		All intrastate cases for paternity and support order establishment only
Kansas								
Statewide			X		GC Services	12/93 (5 years)	17 percent	All
Maryland								
Statewide			X		GC Services	12/94	12.85 percent	AFDC and non-AFDC arrears
Baltimore County	X				To be awarded	11/96 (3 years)		All
Queen Anne County	X				To be awarded	11/96 (3 years)		All
Baltimore City				X	Nations Bank	1989	Variable fee per service	All
Massachusetts								
Statewide				X	Shawmut Bank	10/95 (3 years)	Variable fee per transaction	All
Statewide			X		Lockheed Martin IMS	10/92 (3 years)	Negotiated contract	AFDC and non-AFDC arrears
Statewide			X		GC Services	10/92 (3 years)	Negotiated contract	AFDC and non-AFDC arrears
Michigan								
Bay County Friend of the Court			X		David M. Griffith & Associates	1/95	20 percent	AFDC, non-AFDC, and service fee arrears
Branch County Friend of the Court			X		David M. Griffith & Associates	8/92	Negotiated contract	AFDC, non-AFDC, and service fee arrears
Cass County Friend of the Court			X		David M. Griffith & Associates	1/92	Negotiated contract	AFDC, non-AFDC, and service fee arrears

(continued)

**Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995**

	Privatized services			Contractor	Start date (contract length)	Payment terms ^{a, e}	Type of cases served ^f
	Full service ^a only	Locate	Collections ^b	Payment processing			
Emmet County Friend of the Court			X	David M. Griffith & Associates	10/93	Negotiated contract	AFDC, non-AFDC, and service fee arrears
Iosco/Oscoda County Friend of the Court			X	David M. Griffith & Associates	6/92	Negotiated contract	AFDC, non-AFDC, and service fee arrears
Midland County Friend of the Court			X	David M. Griffith & Associates	5/95	20 percent	AFDC, non-AFDC, and service fee arrears
Minnesota							
Statewide			X	Lockheed Martin IMS	12/94 (4 years)	16 percent	All non-AFDC arrears, interstate AFDC arrears
Mississippi							
Hinds and Warren Counties	X			Maximus	7/94 (5 years)	40.1-27.6 percent ^c	All
Missouri							
Statewide			X	GC Services	7/94 (3 years)	9.9 percent	AFDC arrears
Nebraska							
Douglas County	X			PSI	2/93 (5 years)	15-13 percent ^c	All
Nevada							
Statewide			X	GC Services	3/94 (2 years)	20 percent ^c	AFDC arrears
New Hampshire							
Statewide		X		Credit Bureau Services of New Hampshire	7/94 (2 years)	Variable fee per service ^d	All
New Mexico							
Statewide			X	GC Services	11/93 (3 years)	22 percent ^d	AFDC arrears ^d
Statewide			X	CRW (TRW)	2/94 (2 years)	21 percent ^d	AFDC arrears ^d
New York							
Statewide ^f				X	Lockheed Martin IMS	1/93 (3 years)	Fixed fee of \$6.3 million

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Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995

	Privatized services				Contractor	Start date (contract length ^c)	Payment terms ^{d,*}	Type of cases served ^f
	Full service ^a only	Locate only	Collections ^b	Payment processing				
New York City		X			Equifax	3/94 (3 years)	Variable fee per service ^e	All
North Carolina								
Sixteen state run programs			X		Educational Recovery Services (GC Services), Payco- General American Credit, and A.M. Miller and Associates	12/95 ⁱ (1.5 years)	19, 18.4, and 20 percent, respectively	AFDC and non-AFDC arrears
Ohio								
Huron County			X		David M. Griffith & Associates	10/94 (2 years)	Fixed fees per service: \$14.84 per location. \$10.63 per collection ^u	AFDC and non-AFDC arrears
Clark County			X		David M. Griffith & Associates	7/95 (6 months) ^v	15 percent	At county discretion
Lawrence County			X		GC Services	7/95 (6 months) ^v	18 percent	At county discretion
Lucas County			X		United Creditors Alliance Corp.	7/95 (6 months) ^v	23.5 percent* + \$45 per location	At county discretion
Oklahoma								
Pittsburg County, Haskell County	X				Kibois Community Action Foundation (nonprofit)	1993 (4 years)	Cost- reimbursement	All
Comanche County, Cotton County	X				Great Plains Improvement Foundation (nonprofit)	1993 (4 years)	Cost- reimbursement	All ^e
Pennsylvania								
Dauphin County			X		David M. Griffith & Associates	8/93 (3 years)	Negotiated contract	AFDC and non-AFDC arrears

(continued)

**Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995**

	Privatized services			Contractor	Start date (contract length ^c)	Payment terms ^{d, e}	Type of cases served ^f
	Full service ^a only	Locate Collections ^b	Payment processing				
Tennessee							
District 7	X ^g			Maximus	7/92 (5 years)	16 percent	All
District 20	X ^g			Maximus	7/93 (5 years)	12-10.5 percent ^h	All
District 10	X ^g			PSI	7/91 (5 years)	13.5 percent fixed	All
District 29	X ^g			PSI	2/92 (5 years)	19-15 percent ^h	All
District 27	X ^g			PSI	1/95 (5 years)	17-14 percent ^h	All
Texas							
Statewide		X		Lockheed Martin IMS	9/93 (4 years)	13.24 percent	AFDC and non-AFDC arrears ^a
Utah							
Statewide		X		Lockheed Martin IMS	12/94 (3 years)	13.95 percent + \$46.50 per location	AFDC arrears
Vermont							
Statewide			X	Vermont National Bank	1/95 (1.5 years)	Variable fee by type and volume of transaction ^r	All
Virginia							
Statewide		X		GC Services	6/95 (1 year)	20 percent	AFDC and non-AFDC arrears
Hampton and Chesapeake District Offices	X			Lockheed Martin IMS	2/94 (5 years)	10 percent ^r	All
Alexandria/Arlington/Falls Church	X			To be awarded			All
Washington							
Statewide		X		To be awarded			AFDC arrears
West Virginia							
Statewide			X	One Valley Bank	7/95 (5 years)	Variable fee by type of transaction plus cost reimbursement	All

(continued)

Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995

	Privatized services				Contractor	Start date (contract length ^c)	Payment terms ^{d, e}	Type of cases served ^f
	Full service ^a only	Locate only	Collections ^b	Payment processing				
Wyoming								
Districts 1,2,3	X ^g				PSI	6/95 (4 years)	17.5-16 percent ^h	All
Districts 8,9	X				Gray & Associates	5/95 (4 years)	\$724,000 + 8 percent of collections over \$2.5 million	All

Note: We did not identify planned or ongoing contracts in 13 states and the District of Columbia. The 13 states are Alaska, Delaware, Kentucky, Louisiana, Maine, Montana, New Jersey, North Dakota, Oregon, Rhode Island, South Carolina, South Dakota, and Wisconsin.

^aFull service includes location, paternity and support order establishment, payment processing, and collections.

^bCollections and related location services.

^cLength of contract can include possible annual renewals.

^dUnless otherwise noted, payment terms are expressed as a percentage of contractor-generated collections.

^ePayment terms vary, depending on factors such as volume, quality, type of cases referred, and use of multiple or single contractors.

^fArrears may be defined differently in each jurisdiction (for example, no voluntary payment in 90 days or 6 months).

^gState performs payment processing.

^hFirst figure is the payment figure for the contract's first year; second figure is the rate reached by the end of the contract period.

Payment terms of negotiated contracts are not disclosed because they are considered private information.

ⁱTotal cost of contract capped at \$3,000.

^jTotal cost of contract capped at \$2.95 million.

Cases referred to the contractor are primarily AFDC arrears, but may also include any type of case, since referral is made at the discretion of state staff.

^kTerms are based on statewide operation of full-service programs that have not yet been implemented and are pending legislative approval. In addition, contractor received \$2.98 million for start-up costs between April and June 1994 and \$14,180,262 as a flat fee for the first 15 months. Currently, contractor receives \$400,000 a month plus incentives for operating the two programs shown.

^lTotal cost capped at \$75,000 in fiscal year 1994 and \$125,000 in fiscal year 1995.

^mTotal cost capped at \$10,000 in fiscal year 1995 and \$16,000 in fiscal year 1996.

Appendix II
Contract Information on State and Local
Child Support Privatization Initiatives
Ongoing or Planned as of October 1995

*Total cost of contract capped at \$225,000

*Caseload includes some cases that are not in arrears.

*Counties have been phased in over the life of the contract. Lockheed reached full statewide coverage in March 1995

*Total cost of contract capped at \$5,115,000

*Date of first referral of child support cases to a contractor who currently has a contract with the state attorney general for collections.

*Total cost of contract capped at \$9,999

*This effort is a pilot

*Total cost of contract capped at \$10,000

*Contract excludes incoming interstate cases

*Total cost of contract capped at \$150,000

*Contract includes a performance guarantee, reducing contractor's revenue by 10 percent per month for failure to meet certain goals

Source: Interviews with state officials and contractors, contracts and other documents obtained by GAO

Related GAO Products

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

Child Support Enforcement: Families Could Benefit From Stronger Enforcement Program (GAO/HEHS-95-24, Dec. 27, 1994).

Child Support Enforcement: Federal Efforts Have Not Kept Pace With Expanding Program (GAO/T-HEHS-94-209, July 20, 1994).

Child Support Enforcement: Credit Bureau Reporting Shows Promise (GAO/HEHS-94-175, June 3, 1994).

Child Support Enforcement: States Proceed With Immediate Wage Withholding; More HHS Action Needed (GAO/HRD-93-99, June 15, 1993).

Child Support Assurance: Effect of Applying State Guidelines to Determine Fathers' Payments (GAO/HRD-93-26, Jan. 23, 1993).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Medicaid: Ensuring That Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80, June 17, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

Interstate Child Support: Wage Withholding Not Fulfilling Expectations (GAO/HRD-92-65BR, Feb. 25, 1992).

Interstate Child Support: Mothers Report Less Support From Out-of-State Fathers (GAO/HRD-92-39FS, Jan. 9, 1992).

Interstate Child Support Enforcement: Computer Network Contract Not Ready to Be Awarded (GAO/IMTEC-92-8, Oct. 23, 1991).

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